

SMALL BUSINESS SYSTEMS MARKETING STUDY

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SMALL BUSINESS SYSTEMS MARKETING STUDY

Prepared For:

INTERNATIONAL BUSINESS MACHINES CORPORATION  
SYSTEMS COMMUNICATIONS DIVISION

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# SMALL BUSINESS SYSTEMS MARKETING STUDY

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## SMALL BUSINESS SYSTEMS MARKETING STUDY

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## I INTRODUCTION



## I INTRODUCTION

### A. STUDY OBJECTIVES

- This report was prepared by INPUT as a custom study for the IBM Systems Communications Division, Harrison, New York.
- The objectives of this study are to:
  - Determine the quantity discounting practices of major vendors of small business systems.
  - Determine the lease/purchase marketing mix for the vendors interviewed.
  - Determine the typical systems order size to very large customers.
  - Obtain discount schedules and prices if possible.
  - Explore industry distribution channels.



## B. METHODOLOGY

- A suggested list of questions to be incorporated into a questionnaire was prepared by the Systems Communications Division of IBM and given to INPUT at a joint meeting in Harrison, New York. The resulting questionnaire is Appendix A.
- Telephone interviews were the primary data gathering method used for this study.
  - As a result of the telephone interviews, several discount schedules were mailed to INPUT. The pertinent data from those schedules has been included in the study.
- Home office and branch personnel were interviewed.
- Attempts were made to confirm all data and call backs were made where information wasn't clear.
- INPUT was identified as a consultant to all vendors.
- IBM was never identified.
- To ensure vendor privacy, the respondent letter code refers to a different respondent on each of the exhibits in Chapter III and as profile identifiers in Chapter IV. The sole exceptions are Exhibits III-4 and III-5. In these two exhibits the same letter represents the same respondents.
- Chapter III is a summary of the responses to the questionnaire and, therefore, is a summary of some of the marketing practices of the major vendors of small and medium size business systems.

- Chapter IV contains the detailed discounting schedules for each respondent, if they were given to INPUT over the telephone or mailed to INPUT. These profiles also contain whatever marketing policy information the respondents volunteered when interviewed.
- An oral presentation was made to IBM in Harrison, New York on January 14, 1980. For the most part, the exhibits in Chapter III and Chapter IV represent the material presented.





## II EXECUTIVE SUMMARY



## II EXECUTIVE SUMMARY

### A. KEY CONCLUSIONS

- All vendors offer quantity discounts to end users.
  - Most vendors give discounts based upon the number of systems ordered and to be delivered within a specified period of time - usually 15 months.
  - In addition, some vendors offer discounts based upon the total dollar amount ordered. One vendor offers dollar volume discounts only.
- Most vendors offer large end users OEM discounts, provided they behave in some way similar to an OEM.
  - They must require minimal support.
  - They must add value to the system before distributing it within their organizations.
  - They must install the systems with little or no assistance from the vendor.
- Most vendors have discount schedules published as part of their contracts.



- Sometimes the rules for determining the discount level become very complicated, but the rules seem to be well defined in the contracts.
- There are frequently different discount schedules for vendor made hardware, vendor bought hardware, and software. Software receives the biggest discounts.
- Higher discounts can be negotiated in special cases.
  - Separate contracts, usually called National Account contracts, set forth the discounts that will be used and the reasons why this customer merits special consideration.
- Most vendors do not offer discounts to lease customers.
  - Most vendors offer discounts on systems purchased through the purchase option clause of the lease contract.

## B. COMPANIES CONTACTED

- The companies listed in Exhibit II-1 were designated by IBM and interviewed by INPUT.
- The systems referenced in Exhibit II-1 are the major small to medium business systems of the interviewed vendors. These systems were specified by IBM and the responses to the questions must be interpreted with these systems in mind unless the text references other systems.
- Senior level marketing people, described in Exhibit II-2, were contacted in each of the companies at either the branch or in the home office.
  - In most companies, more than one person was contacted to either complete the information or confirm the data.

## EXHIBIT II-I

### COMPANIES CONTACTED

<u>COMPANY</u>	<u>SYSTEMS REFERENCED</u>
• Burroughs Corporation	B 1700, B 1800
• Data General Corporation	NOVA, ECLIPSE C/150, C/350
• Datapoint Corporation	2200, 5500, 6600
• Digital Equipment Corporation	PDP-11/34, 44, 60, 70
• Four-Phase Systems, Inc.	SYSTEM IV 60, 65, 90
• Hewlett-Packard Company	3000-III, 300, 1000
• Honeywell Information Systems Inc.	LEVEL 6, LEVEL 62
• Northern Telecom Systems Corporation	SYSTEM 85, 440, 445
• Perkin-Elmer Corporation	7/32, 8/32
• Prime Computer, Inc.	400, 500
• Raytheon Data Systems	PTS 1200
• Sperry Rand Corporation	BC/7
• Wang Laboratories, Inc.	VS, WCS

## EXHIBIT II-2

### RESPONDENTS' RESPONSIBILITY

#### RESPONDENT

A	Branch Manager; Home Office Product Marketing
B	Product Marketing Director
C	Branch Manager; Home Office Product Marketing
D	Branch Manager; Vice President Marketing
E	Director, Contracts; Home Office Marketing
F	Branch Manager
G	National Account Manager
H	Marketing Manager
I	Regional Manager; Vice President, Sales
J	Executive Account Manager
K	Branch Manager; Product Manager
L	Contract Manager; District Manager
M	District Product Marketing Manager; Home Office Product Marketing



### III QUESTIONNAIRE RESPONSE ANALYSIS



### III QUESTIONNAIRE RESPONSE ANALYSIS

#### A. MARKETING POSTURE

- All respondents, presented in Exhibit III-1, sell business systems directly to end users.
  - The percentage of sales to end users varies from 30% to 100% and sometimes varies with the system under discussion. Respondent J, for instance, sells 100% of one system, but only 10% of the other system referenced to end users.
- Sales to end users can be broken down between purchases and leases.
  - Only two vendors sell all their products; all leases are third party leases.
  - Everyone else leases on their own. Some use third parties, in addition to doing their own leasing.
- In general, large users may get OEM level discounts, but the large users must have some or all of the characteristics of an OEM. Among the items considered are:
  - Amount of pre and post sales support needed.

## EXHIBIT III-1

VENDORS WHO SELL SMALL AND MEDIUM SIZE  
BUSINESS SYSTEMS DIRECTLY TO END USERS

RESPONDENT	SALES TO END USERS (PERCENT)	END USER PURCHASE VERSUS LEASE		LARGE END USERS QUALIFY FOR OEM TERMS AND CONDITIONS		
		PURCHASE (PERCENT)	LEASE (PERCENT)	NO	YES	SPECIAL TERMS AND CONDITIONS
A	60%	60%	40%		X	LITTLE SUPPORT - 25 PLUS SYSTEMS
B	95	50	50	X		WILL SELL SELECT- ED PERIPHERALS
C	90	80	20		X	OEM QUANTITIES AND SUPPORT
D	85	60	40		X	-
E	50	100	-	X		-
F	85	25	75		X	OEM MUST ADD VALUE - SAME DISCOUNT
G	50	100	-		X	SUSTAINED HIGH VOLUME
H	30-35	95	5		X	DOLLAR VOLUME DISCOUNT - SAME UNIT DISCOUNT- LESS
I	95	20	80		X	T&C NOT DISCLOSED
J	100/70	85	15		X	MUST RESELL AND ADD VALUE
K	95	80	20		X	SOFTWARE DEVEL- OPMENT, INSTAL- LATION, ETC.
L	UNKNOWN	10	90		X	UNKNOWN
M	UNKNOWN	90	10		X	5% DIFFERENTIAL



- Amount of installation required.
  - Will the large company resell the equipment internally?
  - Will the large company add value to the system before reselling or distributing it?
  - Order volume initially and over a period of time.
  - How much software must the vendor be responsible for.
- One vendor will only sell selected peripherals - like terminals - on an OEM basis to end users.
  - Responses regarding the typical sale to a Fortune 500 company varied greatly and was given in either dollar or system terms.
    - For generalization purposes, it would be convenient to be able to convert from one to the other but the margin for error is too great to feel comfortable with the results. Therefore, both methods are reported in Exhibit III-2.
  - For the majority of vendors, third party distribution channels were not a significant means of distributing these types of products.
    - For those vendors for whom third parties were a significant distribution channel, not more than 50% of the total product shipped used these channels.

## B. DISCOUNTING POLICIES

- All vendors, indicated in Exhibit III-3, offered volume discounts to end users.

## EXHIBIT III-2

## TYPICAL SYSTEMS AND DISTRIBUTION CHANNELS

RESPONDENT	TYPICAL SYSTEM SALE TO FORTUNE 500 SIZE COMPANY		DISTRIBUTORS, BROKERS, DEALER AND LEASING COMPANIES AS DISTRIBUTION CHANNELS		
	IN DOLLARS	IN QUANTITY	NO	YES	PERCENT OF TOTAL PRODUCT SHIPPED
A	\$ 100,000		X		-
B	1-3 MILLION			X	50%
C	UNKNOWN		X		-
D		20 SYSTEMS	X		3-5
E	30,000-50,000			X	30
F	70,000-250,000			X	NOT DISCLOSED
G		25 SYSTEMS		X	
H		4-10 SYSTEMS	X		-
I		10-15 SYSTEMS	X		-
J		20 SYSTEMS	X		-
K		5-10 SYSTEMS		X	50
L		25 SYSTEMS	X		-
M	250,000-500,000		X		-

EXHIBIT III-3

QUANTITY DISCOUNT POLICIES TO  
END USERS

RESPON- DENT	QUANTITY DISCOUNT		DISCOUNT POLICY			
	TO ALL	INDIVIDUAL LY DETER- MINED	UNITS	DOLLAR VOLUME	BOTH	DISCOUNT COMBINATION
A	X		X			-
B	X		X			-
C	X		X			-
D	X		X			-
E			X			-
F	X				X	SEPARATE CON- TRACTS
G		X	X			-
H	X			X		-
I	X		X			FUNCTIONAL UNITS ADDED TO DETER- MINE DISCOUNT LEVEL
J	X		X			-
K		X			X	UNDEFINED-COULD BE EITHER
L	X		X			PACKAGE SYSTEMS ALSO
M	X				X	WHICHEVER IS GREATER

- These discounts are generally available to customers without a hassle.
- Most vendors provide discounts based upon the number of systems and peripherals purchased.
  - One vendor uses an aggregate dollar volume discounting scheme exclusively.
  - Some vendors offer two different contracts incorporating different discount schedules; one based upon unit quantities and the other based upon aggregate dollar amounts ordered. The customer chooses the one that offers him the best deal for that particular order.
- The columns of Exhibit III-4 must be interpreted differently depending upon the column heading.
  - Specific Product Lines. A "yes" answer means that the discount schedules varies with the product line of the vendor. A "no" means that the same discount schedule applies, without regard to the product line ordered.
  - Total Systems Basis. A "no" answer means that the vendor doesn't care how many systems are ordered, because discounts do not require the ordering of a CPU. In respondent A's case, all like units are accumulated and the discount level is determined separately for each type of equipment. The discount schedule is basically the same but the level is determined separately for each component.
  - A "yes" answer implies that, in some way, the total system is considered as a system for discounting purposes or a CPU must be ordered even though all the units might contribute towards determining the discount level.

# EXHIBIT III-4

## EQUIPMENT DISCOUNTED

RESPONDENT	SPECIFIC PRODUCT LINES		TOTAL SYSTEMS BASIS		CENTRAL PROCESSORS		DISK STORAGE UNITS		TAPE SUB-SYSTEM		TERMI-NALS		SOFT-WARE		MAINTENANCE	
	YES	NO	YES	NO	YES	NO	YES	NO	YES	NO	YES	NO	YES	NO	YES	NO
A		X		X	X		X		X		X		X		X	
B		X		X	X		X		X		X				X	
C				X	X		X		X		X		X		X	
D		X		X	X		X		X		X		X			
E				X	X		X		X		X		X		X	
F				X	X		X		X		X		X			
G				X	X								X		X	
H				X	X								X		X	
I		X		X			X		X		X		X			
J		X		X											X	
K				X			X		X		X		X			
L				X									X		X	
M				X			X		X		X					X



- The Hardware Columns. A "no" answer means that a discount will not be given on these units, whether or not they are ordered with a system. A "yes" answer in conjunction with a "yes" answer in the total systems column means that the discounting scheme could permit a discount on the peripherals when ordered separately. No answer in the column (blank space) in conjunction with a "yes" in the systems column is to be read as meaning that discounts are given on these peripherals when ordered as part of a system but the discounting scheme seems to preclude discounts if the items are ordered individually.
- Software. In general, larger discounts are offered on software than on hardware. Vendors also seemed to be most flexible in this area and used it to gain some leverage in a tight sales situation.
- Maintenance. Most respondents do not discount maintenance. Those that do, have no fixed schedule. The discounts depend upon the maintenance situation, such as:
  1. The geographic distribution of the systems.
  2. The amount of maintenance the customer is willing to do himself.
- The respondents in Exhibit III-5 are in the same sequence as in Exhibit III-7.
- Generally, peripheral products that the vendor makes receive greater discounts than those items that he buys. Software is frequently on a greater discount schedule.
- Exhibit III-6 indicates that the number of CPUs determines the amount of discount a customer receives even though the discount is applied to all or most of the items in the order.

EXHIBIT III-5

DISCOUNT SCHEDULE  
DIFFERENCES BETWEEN PRODUCTS

RESPONDENT	DIFFERENCES
A	DISCOUNT LESS ON VENDOR BOUGHT SYSTEM COMPONENTS.
B	
C	DISCOUNT VARIES BY PERIPHERAL CATEGORY - PRIMARILY BOUGHT VERSUS MADE.
D	PRIMARILY BOUGHT VERSUS MADE COMPONENTS.
E	DEPENDS UPON CONTRACT - QUANTITY DISCOUNT OR SYSTEM UNIT DISCOUNT.
F	
G	PERIPHERALS ON DIFFERENT SCHEDULE, SOME NOT DISCOUNTED.
H	
I	
J	WOULD NOT DISCLOSE.
K	
L	
M	PACKAGED SYSTEMS HAVE DIFFERENT SCHEDULE.

EXHIBIT III-6

DISCOUNT LEVEL DETERMINANTS

RESPONDENT	DISCOUNT LEVEL ON A TOTAL SYSTEMS BASIS			OTHER PARAMETERS THAT DEFINE A DISCOUNT SITUATION OR DETERMINE A DISCOUNT LEVEL		
	NUMBER OF CPUs	ALL MACHINES	COMMENTS	NO	YES	DESCRIPTION
A	X				X	MARKET DYNAMICS
B	X			X		
C		X			X	MARKET DYNAMICS
D		X	FLEXIBLE POLICY-UNITS OR DOLLAR VOLUME		X	NATIONAL AGREEMENTS CAN CARRY GREATER DISCOUNTS
E	X				X	NATIONAL AGREEMENTS CARRY SPECIAL T&Cs
F	X			X		
G	X		BUSINESS OPPORTUNITY TO VENDOR		X	MARKET DYNAMICS
H	X		"NORMALIZED" SYSTEMS USED		X	NON-QUALIFIERS CAN ACCUMULATE PAST PURCHASES AND NEW
I		X	DOLLAR VOLUME		X	
J	X				X	EDUCATIONAL DISCOUNTS -10% EXTRA
K	X	X	PACKAGED SYSTEMS COUNT CPUs PRODUCT DISCOUNT AVAILABLE	X		
L	X		DOLLAR VOLUME OF CPUs TOTAL SYSTEM UNITS	X		
M		X	ALL UNITS CONTRIBUTE TO FUNCTION COUNT	X		

# EXHIBIT III-7

## DISCOUNTS ON LEASE CONTRACTS

RESPON- DENT	OFFER DISCOUNT		APPLIED TO PUR- CHASES MADE UNDER PURCHASE OPTION IN LEASE CONTRACT		PERCENT OF PURCHASES MADE UNDER PURCHASE OPTION CLAUSE
	YES	NO	YES	NO	
A		X	X		LESS THAN 20%
B	X		X		5-10
C	X		X		10-15
D		X	X		25
E		X	X		UNKNOWN
F		X	X		10
G		X		X	UNKNOWN
H		X	X		10
I		X	X		5-10
J		X		X	UNKNOWN
K		X	X		65-70
L		X		X	UNKNOWN
M		X	X		UNKNOWN

- The dollar volume discount levels are determined by the total dollar amount spent.
- Some vendors rate all machines worth a certain number of "points." The discount level is determined by the total number of "points" accrued.
- Respondent H defines a "normal system," and equates larger systems as having three "normal" systems, or one-half a "normal" system, then uses the number of "normal" systems as the discount level.
- Respondent K sells small packaged systems whose price, in unit quantities, is less than the sum of the components. In quantity, these are discounted further.
- Greater discounts than those stipulated in the printed schedules are available for special situations. These situations are covered by a separate contract, frequently called a "National Account" contract, in which the reasons for the greater discounts are detailed.
- All but two vendors do not give discounts on lease contracts, but almost all the vendors that lease, give a discount on purchases made via the purchase option clause in lease contracts, as shown in Exhibit III-7.
  - However 25% or less of the purchases are made under the purchase option clause.
  - Respondent H claims to have a definite sales strategy to convert leases to purchase under the option clause and says that 65-70% of all purchases are made under the clause.
- "Effective" discounting, such as granting free trial period or giving free spare parts, is generally not practiced with these vendors, as shown in Exhibit III-8.

# EXHIBIT III-8

## USE OF "EFFECTIVE" DISCOUNT TERMS

RESPON- DENT	FREE INSTAL- LATION		EXTENDED WARRANTY PERIOD		FREE TRIAL PERIOD		FREE SPARE PARTS		REDUCED MAINTENANCE		OTHER
	YES	NO	YES	NO	YES	NO	YES	NO	YES	NO	
A		X		X		X		X		X	MULTIPLE DELIVERY (5 UNITS)
B		X		X		X		X		X	
C		X		X		X		X		X	
D		X		X		X		X		X	
E		X		X		X		X		X	ANYTHING REASONABLE
F		X		X		X		X		X	
G	X		X		X		X		X		
H		X		X	X		X		X		
I		X		X	X		X		X		
J		X		X	X		X		X		
K		X		X	X		X		X		
L		X		X		X		X		X	
M	X		X		X		X		X		



- One vendor grants an extra 5% discount if delivery is taken on five or more CPUs at one time.
- Two respondents admitted to offering anything reasonable to get the order.

### C. DELIVERY CLAUSES

- All vendors require the systems to be ordered and delivered within a fixed time frame.
  - Most have a one year contract during which systems may be ordered for delivery anytime within 15 months from the date of contract signing.
  - Respondent B quoted a similar arrangement, as can be seen in Exhibit III-9, but when the contract arrived it specifically stated that prices were only good for 30 days for systems that were to be delivered within 6 months of order placement. When questioned about the conflict, the respondent said the one year/15 months was the maximum time that could be written into the contract.
- Most vendors required delivery milestones, but negotiated these at contract signing time to best fit the needs of the customer, as indicated in Exhibit III-10.
- Unearned discounts are always charged back in one way or another.
  - Some vendors ask the customer for payment for unearned discounts. Respondent K required the discount level for the next order period reduced to the earned level of the prior period.

## EXHIBIT III-9

MAXIMUM DELIVERY PERIODS  
AND ACCEPTANCE MILESTONES

RESPONDENT	MAXIMUM ORDER OR DELIVERY PERIOD FOR END USER DISCOUNTS	REQUIRES INSTALLATION OR ACCEPTANCE MILESTONES		
		YES	NO	DESCRIPTION
A	1 YEAR - NEGOTIABLE	X		NEGOTIATED CONTRACT DATES
B	1 YEAR - 15 MONTHS DELIVERY	X		NEGOTIATED
C	1 YEAR - 14 MONTHS DELIVERY	X		WITHIN 8 MONTHS, 40% MUST BE ACCEPTED
D	1 YEAR - 15 MONTHS DELIVERY	X		-
E	18 MONTHS DELIVERY EXTENDABLE		X	-
F	1 YEAR	X		NEGOTIATED
G	3 YEARS-12 MONTHS DELIVERY PERIODS		X	NEGOTIATED - QUARTERLY PERIODS
H	1 YEAR		X	CAN BE NEGOTIATED
I	1 YEAR - 15 MONTHS DELIVERY	X		3 MONTHS - 5%, 6 MONTHS - 20%, 9 MONTHS - 40%
J	1 YEAR - NEGOTIABLE	X		NEGOTIATED
K	NEGOTIATED CONTRACT	X		NEGOTIATED
L	18 - 24 MONTHS	X		NEGOTIATED
M	1 YEAR - NEGOTIABLE	X		

EXHIBIT III-10

CHARGEBACKS AND CANCELLATION PENALTIES

RESPONDENT	CHARGEBACK UNEARNED DISCOUNTS		INCUR CANCELLATION OR DEFERRAL CHARGES		DATE CUSTOMER MAY CANCEL WITHOUT PENALTY PRIOR TO DELIVERY	ENFORCE PENALTIES	
	NO	YES	NO	YES		NO	YES
A	-	X	-	X	90 DAYS	-	X
B	-	X	-	X	90 DAYS	-	X
C	-	X	X	-	30-60 DAYS	X	-
D	-	X	-	X	30 DAYS	-	X
E	-	X	-	X	90 DAYS	-	X
F	-	X	-	X	0-30 DAYS - 35% 31-60 DAYS - 15% 61+ DAYS - 0%	X	-
G	-	X	X	-	PRIOR TO SHIPMENT	X	-
H	-	X	X	-	60 DAYS BEFORE PRODUCTION	-	X
I	-	X	X	-	NO FIRM POLICY	X	-
J	-	X	X	-	PRIOR TO SHIPMENT	X	-
K	-	X	-	X	-	X	-
L	-	X	X	-	NO FIRM POLICY	X	-
M	-	X	-	X	30 DAYS	X	-

- Cancellation charges are usually incurred when a shipment date is deferred within a fixed period prior to shipment. The fixed period varies with the vendor.
  - Respondent C claims to generally not have penalty clauses but "if we do put one in the contract it is usually for 30 days or 60 days before shipping."
  - Respondent G and J charge the customer transportation expenses if the system is cancelled after being shipped.
  - Respondent H claims to have no penalty clauses but did say that there might be some penalties assessed if the system were cancelled within 60 days before production.
  - Respondent K claims to have penalties, but no such item could be found in his contract.



#### IV RESPONDENT DISCOUNT POLICY PROFILES





#### IV RESPONDENT DISCOUNT POLICY PROFILES

##### A. INTRODUCTION

- This section contains the detailed discount schedules for each respondent if they were made available to INPUT.
- All discounting information is grouped together for each respondent.
- Discount schedules are on file for the following respondents:
  - Respondent A sent four contracts with different discount schedules. Three are dated 9/79, copyright 1979, and the fourth is dated 4/30/79.
  - Respondent H sent four contracts all dated "Revised 2/78."
  - Profile K sent a Systems Builders contract dated 11/29/79.
  - Profile L's contract, dated 8/79, was received after the presentation was made to IBM. The information for Profile L in this volume is new information and did not appear in the original presentation.
- When discount schedules separate products by type (as for Respondent A) the usual procedure is to make a distinction between products that the vendor makes, as compared with those he buys. Greater discounts are available on

vendor made products. If a third product type is listed, it usually refers to software products.

- In the system unit discount schedules of Respondent H, software is product type "four."

B. RESPONDENT A

- Complex discount structure.
- Has schedules but can be flexible.
- Will discount practically any product or service.
- OEM unit volume discounts:

<u>NUMBER OF UNITS</u>	<u>PERCENT DISCOUNTS BY PRODUCT TYPE</u>		
	<u>ONE</u>	<u>TWO</u>	<u>THREE</u>
1	15%	8%	16%
2-4	17	10	20
5-9	20	13	26
10-19	23	16	32
20-34	26	19	38
35-49	29	22	44
50-74	32	25	50
75-99	34	27	54
100 and over	35	28	56

- OEM dollar volume discounts:

<u>AGGREGATE DOLLAR VALUE (\$000s)</u>	<u>PERCENT DISCOUNT BY PRODUCT TYPE</u>		
	<u>ONE</u>	<u>TWO</u>	<u>THREE</u>
\$ 0-500	-	-	-
500-750	20%	13%	26%
750-1,000	21	14	28
1,500-2,000	26	19	38
2,000-3,000	28	21	42
3,000-4,000	29	22	44
4,000-6,000	31	24	48
6,000-10,000	32	25	50
10,000-15,000	33	26	52
15,000-20,000	34	27	54
20,000 and over	35	28	56

- End user unit volume discounts:

<u>NUMBER OF UNITS</u>	<u>EQUIPMENT AND SOFTWARE PERCENTAGES</u>
1	-
2-4	2%
5-9	5
10-19	8
20 and over	Negotiated

- End user dollar volume discounts:

AGGREGATE DOLLAR  
VALUE (\$000s)

DISCOUNT PERCENTAGES

\$ 0-500	-
500-750	5%
750-1,000	6
1,000-1,500	8
1,500-2,000	11
2,000 and over	Negotiated

C.     RESPONDENT B

- Flexible policy for high dollar volume business.
- Always willing to consider special terms, etc.
- Dollar volume discount schedule:

DOLLAR VALUE (\$000)

DISCOUNT PERCENTAGES

25-75	2.5%
75-150	5.0
150-250	7.5
250-500	12.5
500-750	17.5
750-1,000	20.0
1,000-3,000	22.0
3,000 and over	25.0-30.0 negotiated



#### D. RESPONDENT C

- Very up tight about giving out information--policy or pricing.
- Customers must ask for discount--it will rarely be offered.
- Very flexible with milestones, chargebacks, etc.
- Discount terms could vary between customers for similar number of systems or dollar volume.
- Only indication of discount given:
  - Over \$100,000 order would get about 3-5% discount.

#### E.     RESPONDENT D

- End users do not qualify for OEM discount except for certain peripherals, especially CRTs.
- Low incidence of customer initiated cancellations due to strict contract enforcement.
- A unit for discounting purposes is defined as a CPU plus associated peripherals.

#### DISCOUNT BREAKPOINTS

#### DISCOUNT PERCENTAGE

5 units	5%
10 units	10
< 10 units	Negotiated

- Small and medium size business systems are rarely sold in quantities greater than 10 units.

## F. RESPONDENT E

- A unit is defined as a CPU with cabinet, power supply, and memory.
- Unit discount schedule:

<u>UNIT QUANTITY</u>	<u>DISCOUNT PERCENTAGE</u>
1-3	-
4-9	6%
10-14	13
15-19	15
20-49	21
50-99	23
100 and over	24

- Peripheral discounts:

<u>CATEGORY</u>	<u>UNIT QUANTITY</u>	<u>DISCOUNT PERCENTAGE</u>
A*	1-9	10-13%
B**	1-7	8-11
C***	1-6	13-24

- Official policy is to discount peripherals only when bought with CPU.

\* Primarily made by vendor.

\*\* Primarily purchased by vendor.

\*\*\* Software

G.     RESPONDENT F

- Goal is to increase OEM business from 10% to 50% within 18 months.
- Unit discount schedule:

UNIT QUANTITY

DISCOUNT PERCENTAGE

2-5	10%
6-10	12
11-15	14
16 and over	Negotiated to a maximum of 30%

- The maximum of 30% is also negotiable under special contracts.

## H. RESPONDENT G

- Packaged systems are discounted initially. Quantity orders are stated in dollars rather than in percentages.
- Packaged system example:

<u>QUANTITY</u>	<u>PRICE</u>
0-10 Systems	\$6,550 each
11-24 Systems	\$5,550 each
25-50 Systems	\$5,250 each
< 50 Systems	\$4,850 each

- Product group discount example:

<u>UNITS</u>	<u>DISCOUNT PERCENTAGE</u>
1-3	-
4-10	3-5%
11-25	8
26 and over	12-20

- Discount schedules vary by product group.
- Product groups are basically made versus bought items.

## I. RESPONDENT H

- Adheres strictly to discount schedules--little opportunity for increased discounts or special terms.
- Attitude is essentially, "If you don't like our terms, please buy somewhere else."
- End user quantity discount schedule:

<u>UNITS</u>	<u>DISCOUNT PERCENTAGE</u>	
	<u>EQUIPMENT</u>	<u>SOFTWARE</u>
1	-	-
2	5%	6%
3-5	9	11
6-9	13	16
10-14	16	24
15-19	19	28
20-29	21	32
30-49	24	38
50-74	26	42
75-99	27	46
100-149	28	48
150-199	29	50
200	30	52

- System unit discount schedule:

PERCENT DISCOUNT BY PRODUCT TYPE

<u>SYSTEM UNITS</u>	<u>ONE &amp; TWO</u>	<u>THREE</u>	<u>FOUR</u>
1,2	-	-	-
3,4	4%	2%	6%
5,6	8	4	11
7-10	10	6	16
11-15	12	8	24
16-20	14	9	28
21 and over	16	9	32

- "A system unit is any computer, integrated system, packaged system, development system or demonstrator system which has a system unit designation in... current price list (i.e. 1 SU, ½ SU, etc.). The absence of a system unit designator in ... price list means that item does not qualify as a system unit."
- OEM system unit discount schedule:

PERCENT DISCOUNT BY PRODUCT TYPE

<u>SYSTEM UNITS</u>	<u>ONE</u>	<u>TWO</u>	<u>THREE</u>	<u>FOUR</u>
1,2	10%	10%	5%	10%
3,4	14	12	5	16
5,6	18	15	6	21
7-10	20	17	7	26
11-15	22	19	8	34
16-20	24	20	9	38
21-30	26	22	10	42
31-50	29	24	10	46
51-75	32	27	11	50
76-100	34	29	12	54
101 and over	35	30	13	57



- OEM quantity discount schedule:

<u>UNITS</u>	<u>DISCOUNT PERCENTAGE</u>	
	<u>EQUIPMENT</u>	<u>SOFTWARE</u>
1	10%	10%
2	15	16
3-5	19	21
6-9	23	26
10-14	26	34
15-19	29	38
20-29	31	42
30-49	34	48
50-74	36	52
75-99	37	56
100-149	38	58
150-199	39	59
200	40	60

- Cancellation penalties:

<u>NUMBER OF DAYS PRIOR TO SCHEDULED DELIVERY</u>	<u>PERCENT OF LIST PRICE</u>
---	------------------------------

<u>STANDARD PRODUCTS</u>	
90-61	5%
60-45	10
44-31	20
30 or less	30

<u>CUSTOM PRODUCTS</u>	
90-61	20
60-31	50
30 or less	100

J.      RESPONDENT I

- Uses system units to equate large systems to "normal" systems for discounting purposes.
- Have different schedules for different product lines but would only quote one schedule as an example.
- Very lease oriented. Gives strong incentives to convert to purchase.
- Forming special headquarters group to develop OEM business.
- End user discount schedule example.

UNITS

DISCOUNT PERCENTAGE

3-9	10.0%
10-14	12.5
15-24	15.0
25 and over	Negotiated (rarely above 21%)

# K. RESPONDENT J

- OEM and end user dollar volume discount schedule:

<u>DOLLAR VOLUME (\$000)</u>	<u>DISCOUNT PERCENTAGE</u>
100-275	10%
275-750	15
750-1,500	20
1,500-2,500	22
2,500-3,500	25
3,500-5,000	27
5,000 and over	29

- OEM and end user unit quantity discount schedule:

<u>UNIT QUANTITY</u>	<u>DISCOUNT PERCENTAGE</u>	
	<u>OEM</u>	<u>END USER</u>
1	10%	—
2	15	5%
3-5	19	9
6-9	23	13
10-14	26	16
15-19	29	19
20-29	31	21
30-49	34	24
50-74	36	26
75-99	37	27
100 and over	38	28

- Large volume orders can be separately negotiated with home office for greater discounts based upon "significant business opportunity."
- Similar units are accumulated for greatest possible discount (all disk storage systems, all tape drives, etc). Dollar volume or unit quantity discount is then applied to achieve lowest price.
- Discounts are lower on some vendor purchased peripherals.
- "Effective" discounts have been used where required.

L.      RESPONDENT K

- Discount schedule:

<u>CENTRAL SYSTEM QUANTITY COMMITMENT</u>	<u>CENTRAL SYSTEM DISCOUNT PERCENTAGE</u>		
	<u>TYPE 1</u>	<u>TYPE 2</u>	<u>TYPE 3</u>
- Number Per Year			
0-4	-	-	-
5-9	20.0%	10.0%	15.0%
10-14	25.0	12.5	20.0
15 and over	30.0	15.0	25.0
- Number Per Quarter Per Year			
3-7	30.0	15.0	25.0
8-14	30.0	15.0	27.0
15-24	35.0	17.5	30.0
25 and over	45.0	22.5	33.0

<u>CENTRAL SYSTEM QUANTITY COMMITMENT</u>	<u>PAID-UP SOFTWARE LICENSE DISCOUNT (%)</u>	<u>ALL OTHER EQUIP. AND SOFTWARE INCLUDING INSTAL- LATION FEE DISCOUNT (%)</u>	<u>CENTRAL SYSTEM MULTIPLE DELIVERY ADDER DISCOUNT (%)</u>
- Number Per Year			
0-4	-	-	-
5-9	20.0%	5.0%	5.0%
10-14	25.0	7.5	5.0
15 and over	30.0	10.0	5.0
- Number Per Quarter Per Year			
3-7	30.0	10.0	5.0
8-14	35.0	15.0	5.0
15-24	40.0	17.5	5.0
25 and over	45.0	20.0	5.0

- Electromechanical peripherals are not discounted.
- Some system software and software packages are not discounted.

#### M. RESPONDENT L

- Computers and computer systems are discounted based upon the total functional units earned.
- Accessories, interfaces, peripherals, and terminals associated with these computers and computer systems are discounted at the computer (or system) determined level.
- Terminals (CRTs, certain printers, plotters, etc.) that are purchased separately from computers or computer systems earn discounts based upon the total quantity of products purchased.
- Peripherals (certain printers, plotters, disk subsystems, tape subsystems, floppy disks, etc.) earn discounts based upon the total functional units earned.
- Typical functional units earned:

<u>PRODUCT</u>	<u>FUNCTIONAL UNITS</u>
Small Computer	1.0
Small Business Computer System	2.0
Larger Computer System	3.0-4.0
Plotter	0.5
Cartridge Disk Subsystem	1.0
Disk Drives	1.0
Magnetic Tape Drives	1.0
Printers	0.5-1.0



- Computer and computer systems discount schedule:

<u>FUNCTIONAL UNITS</u>	<u>END USER SCHEDULE (PERCENT)</u>	<u>OEM SCHEDULE (PERCENT)</u>	<u>COMPONENT OEM SCHEDULE (PERCENT)</u>
1-4	-	5%	15%
5-7	4%	9	19
8-14	7	12	22
15-24	10	15	25
25-34	13	18	28
35-49	15	20	30
50-74	17	22	32
75-99	19	24	34
100-149	20	25	35
150-199	22	27	37
200-249	23	28	38

- Some small computers, terminals, printers, memories, and disk systems associated with the small computer are discounted on the component schedule for OEM customers.

- Terminal products discount schedule:

<u>QUANTITY</u>	<u>DISCOUNT (PERCENT)</u>
1-4	-
5-7	4%
8-14	7
15-24	10
25-34	13
35-49	15
50-74	17
75-99	19
100-149	20
150-199	22
200-249	23
250-299	24
300 and over	25

- Some items (3 out of 20) can be discounted an additional 10% when sold to an OEM customer.

- Peripheral products discount schedule:

<u>FUNCTIONAL UNITS</u>	<u>END USER SCHEDULE (PERCENT)</u>	<u>OEM SCHEDULE (PERCENT)</u>	<u>OEM COMPONENT SCHEDULE (PERCENT)</u>
1-4	-	10%	15%
5-7	4%	14	19
8-14	7	17	22
15-24	10	20	25
25-34	13	23	28
35-49	15	25	30
50-74	17	27	32
75-99	19	29	34
100-149	20	30	35
150-199	22	32	37
200-249	23	33	38

- Some peripherals (8 of 21), when ordered by an OEM customer, are discounted on the component schedule.
- Some printers, plotters, and cartridge tape drives appear on both the terminal and peripheral discount schedules.
- Prices are valid for all equipment scheduled for delivery within 6 months of ordering.
- Cancellation within 60 days incurs a 5% penalty on list price for computer products and up to a 5% penalty on all other products.
- A change in delivery date greater than 180 days beyond the original date is considered a new order at new prices.

N. RESPONDENT M

- Discount structure is variable and is based upon degree of business opportunity to vendor rather than on units or dollar volumes.
- Typical discounts are:

SYSTEMS QUANTITY

DISCOUNT PERCENTAGE

1-3	5-10%
4-10	10-15
20-30	20-22

- Lease oriented sales strategy places less emphasis on discounts.

## APPENDIX A: QUESTIONNAIRE



INPUT is currently examining the marketing techniques used by vendors selling small and medium general purpose systems or user programmable terminals with local processing capability. We are interested especially in those systems your company sells with application programs. We are primarily interested in exploring the marketing techniques used in selling to the Fortune 500/50 companies.

All information is held strictly confidential and companies are never identified in the report.



1a. Do you sell directly to end users?

( ) Yes ( ) No

1b. If yes, what percentage of your sales are to end users?

1c. Of these end user sales what percentage are initial purchase transactions as opposed to lease transactions?

(1. Most third party leases are purchases for the vendor.

2. If the third party lease agreement has a vendor buy-back clause it is not a purchase to the vendor, because he has no guarantee of getting his money.

3. All non-cancelable leases are purchase for the vendor because the paper is salable.)

Percent purchase ( )

Percent lease ( )

1d. May large end users qualify for OEM terms and conditions?

( ) Yes ( ) No

1e. If yes, please state the terms and/or conditions that are different from end user terms and conditions.

2. What is your typical sale quantity of these kinds of systems to a Fortune 500 size company?

- 3a. Are distributors, brokers, dealers and leasing companies a significant means of distributing these types of products.

( ) Yes ( ) No

- 3b. If yes, how significant? (Percent of total products shipped).

- 4a. Do you offer quantity discounts to end users?

( ) Yes ( ) No

- 4b. If yes, are the discounts available to all customers or are they determined by each sales situation individually?

Available to all ( ) Individually determined ( )

- 4c. Is the discount offered on a number of units basis or on a dollar volume basis?

Number of units basis ( )

Dollar volume basis ( )

Both ( ) Explain how they are combined:

- 4d. If yes, is the discount available:

	<u>Yes</u>	<u>No</u>
On specific product lines	( )	( )
On a total systems basis	( )	( )
On CPU's	( )	( )
On disk storage	( )	( )
On tape subsystems	( )	( )
On terminals	( )	( )
On software	( )	( )
On maintenance	( )	( )

- 4e. If the discount schedules differ on any of these please explain the differences.
- 4f. If the discount is on a total systems basis does the number of CPU's determine the discount level or are all machines included in the discount level determination?

Number of CPU's ( )

All machines ( )

Comments

- 4g. Are there any other parameters that would define a discount situation or determine the discount level?

( ) No

( ) Yes, please describe

- 4h. Please describe your end user purchase discount schedules.  
(Interviewer - user separate sheet for each schedule).

- 5a. (If they lease) Do you offer discounts on lease contracts?

( ) Yes ( ) No

- 5b. Would discounts apply to purchases made under the purchase option clause in the lease contract?

( ) Yes ( ) No

5c. What percentage of purchases are made under the purchase option clause?

6. Do you offer terms which are "effective discounts" such as:

	<u>Yes</u>	<u>No</u>
Free installation	( )	( )
Extended warranty period	( )	( )
Trial period	( )	( )
Free spare parts	( )	( )
Reduced maintenance	( )	( )
Other _____	( )	( )

7. What is the maximum order/delivery period for end user quantity discount customers? (100 systems within 12 months, 500 systems within 36 months, etc.)

8. Are installation/acceptance milestones required? (By the 3rd month - 20 systems, by the 6th month - 50 systems, etc.)

( ) No

( ) Yes. Please describe

9a. Are unearned discounts charged back?

(If a customer who ordered 110 systems and received the hundred unit discount cancels 20 systems is he charged back for initial systems at the higher price)

( ) Yes      ( ) No

9b. Are cancellation or deferral charges incurred?

(If a customer who ordered 110 systems cancels or defers delivery on 8 systems are there any penalties assessed?)

( ) Yes      ( ) No

9c. If yes, how near to the scheduled delivery date may a customer cancel without incurring penalties?

9d. Are the penalties enforced?

( ) Yes      ( ) No

THANK YOU FOR YOUR ASSISTANCE

DISCOUNT SCHEDULE

COMPANY:

PRODUCT:

BREAKPOINTS

DISCOUNT PERCENTAGE







